

City of Hazel Park, Michigan

**Financial Report
with Supplemental Information
June 30, 2008**

City of Hazel Park, Michigan

Contents

Report Letter	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements	
Government-wide Financial Statements:	
Statement of Net Assets (Deficit)	8
Statement of Activities	9-10
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	11
Statement of Revenue, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Proprietary Funds:	
Statement of Net Assets (Deficit)	14
Statement of Revenue, Expenses, and Changes in Net Assets (Deficit)	15
Statement of Cash Flows	16-17
Fiduciary Funds - Statement of Net Assets	18
Component Units:	
Combining Statement of Net Assets (Deficit)	19
Combining Statement of Activities	20-21
Notes to Financial Statements	22-42
Required Supplemental Information	43
Budgetary Comparison Schedule - General Fund	44-45
Note to Required Supplemental Information	46-47
Other Supplemental Information	48
Nonmajor Governmental Funds:	
Combining Balance Sheet	49-50
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances (Deficit)	51-52
Agency Funds - Combining Statement of Assets and Liabilities	53

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Independent Auditor's Report

To the Honorable Mayor and Members
of the City Council
City of Hazel Park, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hazel Park, Michigan as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Hazel Park, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States of America. . Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Hazel Park, Michigan as of June 30, 2008 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedule, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Independent Auditors' Report
City of Hazel Park, Michigan

In accordance with Government Auditing Standards, we will also be issuing a report on our consideration of the City of Hazel Park, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the result of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hazel Park, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Alan C. Young, Assoc.

November 14, 2008

City of Hazel Park, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Hazel Park, Michigan's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the City's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2008:

- The General Fund added \$198,856 to fund balance.
- After years of double-digit percentage increases in healthcare costs, the City finally received a break. Total healthcare costs for active employees and retirees decreased approximately \$277,000 from last year, which represents a 9.3 percent decrease.
- City-wide overtime costs were approximately \$20,000 lower than the prior year and \$65,000 under budget.
- The City purchased a new fire truck through an installment purchase agreement. Subsequent to purchasing the new truck, the City was awarded a \$260,000 federal grant for a new fire truck. Therefore, the City acquired two new fire trucks during the year.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

City of Hazel Park, Michigan

Management's Discussion and Analysis (Continued)

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

The City as a Whole

The following table shows, in a condensed format, the net assets (deficit) as of June 30, 2008 and 2007:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Assets						
Current assets	\$ 5,174,914	\$ 3,699,481	\$ 2,582,682	\$ 2,640,893	\$ 7,757,596	\$ 6,340,374
Noncurrent assets	20,438,860	20,642,404	14,723,808	15,041,502	35,162,668	35,683,906
Total assets	25,613,774	24,341,885	17,306,490	17,682,395	42,920,264	42,024,280
Liabilities						
Current liabilities	2,778,175	2,408,943	1,204,271	1,329,316	3,982,446	3,738,259
Long-term liabilities	5,533,514	5,211,484	11,102,983	11,759,227	16,636,497	16,970,711
Total liabilities	8,311,689	7,620,427	12,307,254	13,088,543	20,618,943	20,708,970
Net Assets (Deficit)						
Invested in capital assets -						
Net of related debt	17,579,111	17,898,580	2,949,170	2,618,299	20,528,281	20,516,879
Restricted	1,138,695	1,145,708	107,500	117,500	1,246,195	1,263,208
Unrestricted	(1,415,721)	(2,322,830)	1,942,566	1,858,053	526,845	(464,777)
Total net assets (deficit)	<u>\$ 17,302,085</u>	<u>\$ 16,721,458</u>	<u>\$ 4,999,236</u>	<u>\$ 4,593,852</u>	<u>\$ 22,301,321</u>	<u>\$ 21,315,310</u>

The City's combined net assets increased approximately 4.6 percent from a year ago, increasing from approximately \$21,315,000 to \$22,301,000. Analyzing the governmental activities separately from the business-type activities, the net assets related to governmental activities increased by approximately \$581,000 and the business-type increased by approximately \$405,000.

City of Hazel Park, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes in net assets during the years ended June 30, 2008 and 2007:

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenue						
Program revenue:						
Charges for services	\$ 3,999,063	\$ 3,787,221	\$ 5,193,157	\$ 5,216,959	\$ 9,192,220	\$ 9,004,180
Operating grants and contributions	1,507,728	1,388,378	-	-	1,507,728	1,388,378
Capital grants and contributions	273,105	129,431	-	-	273,105	129,431
General revenue:						
Property taxes	7,393,586	7,094,695	-	-	7,393,586	7,094,695
State-shared revenue	2,482,835	2,497,168	-	-	2,482,835	2,497,168
Race track breakage	489,251	495,161	-	-	489,251	495,161
Unrestricted investment earnings	196,453	147,932	70,222	60,106	266,675	208,038
Franchise fees	175,372	161,248	-	-	175,372	161,248
Loss on sale of capital assets	(20,418)	-	-	-	(20,418)	-
Transfers	(298,236)	(205,000)	298,236	205,000	-	-
Total revenue	16,198,739	15,496,234	5,561,615	5,482,065	21,760,354	20,978,299
Program Expenses						
General government	4,618,304	4,489,156	-	-	4,618,304	4,489,156
Public safety	6,383,630	6,582,625	-	-	6,383,630	6,582,625
Public works	3,669,333	3,469,150	-	-	3,669,333	3,469,150
Recreation and culture	365,072	348,856	-	-	365,072	348,856
Community and economic development	425,391	416,405	-	-	425,391	416,405
Interest on long-term debt	156,382	129,033	-	-	156,382	129,033
Water and sewer	-	-	3,816,896	3,922,893	3,816,896	3,922,893
Municipal Ice Arena	-	-	1,339,335	1,419,690	1,339,335	1,419,690
Total program expenses	15,618,112	15,435,225	5,156,231	5,342,583	20,774,343	20,777,808
Change in Net Assets	\$ 580,627	\$ 61,009	\$ 405,384	\$ 139,482	\$ 986,011	\$ 200,491

Governmental Activities

Total revenues of the governmental activities increased approximately \$703,000 when compared to the prior year. Significant contributors to the increase in revenues include a federal grant for the purchase of a fire truck and increased ambulance revenue. Total expenses increased approximately \$183,000 when compared to last year.

City of Hazel Park, Michigan

Management's Discussion and Analysis (Continued)

Business-type Activities

The City's business-type activities consist of the Water and Sewer Fund and the Municipal Ice Arena Fund.

The City provides water to residents from the City of Detroit's water system and sewage treatment is provided through the Oakland County Drain Commission. Operations of the systems improved compared to the prior year. The current year income from operations was \$355,591, compared to the prior year operating income of \$248,417.

The Municipal Ice Arena houses two ice rinks that cater to local amateur hockey teams, figure skaters, and public skating. In 2008, the ice arena experienced income from operations of approximately \$203,000, compared to \$172,000 in 2007. Although operations have generated profits, the debt service requirements continue to exceed the operating income. Current year debt service requirements totaled \$673,625. The ice arena received a \$298,236 subsidy from the City's General Fund during 2008 to help with the debt service requirements.

The City's Funds

Our analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detail information about the most significant funds, not the City as a whole. The City's major funds for 2008 include the General Fund, the Water and Sewer Fund, and the Municipal Ice Arena Fund.

The General Fund ended the year with total fund balance of \$748,376 and unrestricted fund balance of \$322,805. Revenue increased approximately \$700,000 over 2007. While millage rates stayed the same, property tax revenue increased by approximately \$261,000 due to increases in taxable value. Contributions from the Downtown Development Authority increased approximately \$149,000.

General Fund operating expenditures decreased \$516,209. As discussed in the financial highlights section, healthcare costs are down approximately 9.3 percent. Furthermore, all City departments made a conscious effort to limit expenses to those items that were absolutely necessary.

The General Fund contributed approximately \$843,000 to other funds this year. The most significant contributions included \$298,236 to the Municipal Ice Arena Fund and \$434,000 to the Capital Improvement and Replacement Fund. The contribution to the Municipal Ice Arena is an annual event to subsidize debt service requirements. The contribution to the Capital Improvement and Replacement Fund is in anticipation of a future construction project to replace the I-75 service drive, which is in a state of disrepair.

City of Hazel Park, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

Over the course of the year, the City amended the budget to take into account events during the year. The final amended budget included approximately \$164,000 less in expenses than the originally adopted budgeted due to the unanticipated decrease in healthcare costs. The final budget provided that the City would add \$2,875 to beginning fund balance; actual operations resulted in the addition of \$198,856 to fund balance. Overall, the City out-performed the budget by approximately \$196,000.

Capital Asset and Debt Administration

Notable capital asset additions for governmental activities included \$585,000 for two fire trucks. A \$260,000 federal grant was received to pay for a significant portion of one of the fire trucks. In addition, the City purchased a new street sweeper for \$134,000 in the Garbage and Rubbish Collection Fund. The City replaced its telephone system during the year at a cost of \$35,000 and also replaced two air conditioning units at a cost of \$49,000.

Capital asset purchases in 2008 for business-type activities included \$196,000 of water and sewer system improvements and approximately \$16,000 of improvements to the George W. Kuhn drainage system (see Note 14).

In December 2007, because of several years of struggling in Michigan's down turning economy, the City's bond rating was reduced to BBB- with a negative outlook. However, due to the City's voters passing the Headlee Amendment override in February 2006 (which became effective for the property taxes levied July 1, 2006) and the change from a city-administered pension plan to joining MERS, the City has made significant strides in improving its financial health. The bond rating organization Standard & Poor's took notice of the City's efforts and revised the rating effective April 2008 to AA with a stable outlook.

Economic Factors and Next Year's Budgets and Rates

The City has taken a conservative stance in its 2008/2009 budget due to the uncertainties in the current economy. At this time, there are no significant changes to operations or significant capital expenditures included in that budget.

The City will continue to monitor pension and healthcare costs and the need to subsidize the Municipal Ice Arena. City management and City Council will implement new strategies, if needed, to maintain the current levels of service to the public.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

City of Hazel Park, Michigan

Statement of Net Assets (Deficit) June 30, 2008

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Unit
Assets				
Cash and investments (Note 3)	\$ 3,193,789	\$ 1,186,593	\$ 4,380,382	\$ 99,389
Receivables (Note 4)	1,292,986	1,114,779	2,407,765	30,553
Inventories	44,914	11,321	56,235	-
Prepaid costs and other assets	543,225	269,989	813,214	-
Property held for resale	100,000	-	100,000	-
Restricted assets (Note 8)	-	107,500	107,500	-
Capital assets - Net (Note 5):				
Assets not being depreciated	1,194,004	891,033	2,085,037	154,766
Assets being depreciated	19,244,856	13,725,275	32,970,131	109,345
Total assets	25,613,774	17,306,490	42,920,264	394,053
Liabilities				
Accounts payable	626,427	359,323	985,750	2,692
Accrued and other liabilities	1,573,162	151,074	1,724,236	47,284
Deferred revenue (Note 4)	46,506	-	46,506	-
Noncurrent liabilities (Note 7):				
Due within one year	532,080	693,874	1,225,954	339,380
Due in more than one year	5,533,514	11,102,983	16,636,497	3,733,386
Total liabilities	8,311,689	12,307,254	20,618,943	4,122,742
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	17,579,111	2,949,170	20,528,281	236,345
Restricted:				
Highways and streets	80,896	-	80,896	-
Garbage and rubbish collection	537,800	-	537,800	-
Drug law enforcement	354,844	-	354,844	-
Cable operations	165,155	-	165,155	-
Revenue bond	-	107,500	107,500	-
Unrestricted	(1,415,721)	1,942,566	526,845	(3,965,034)
Total net assets (deficit)	\$ 17,302,085	\$ 4,999,236	\$ 22,301,321	\$ (3,728,689)

City of Hazel Park, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 4,618,304	\$ 2,307,513	\$ 250,745	\$ -
Public safety	6,383,630	527,988	62,737	273,105
Public works	3,669,333	893,357	1,057,298	-
Recreation and culture	365,072	87,976	44,463	-
Community and economic development	425,391	182,229	92,485	-
Interest on long-term debt	156,382	-	-	-
Total governmental activities	15,618,112	3,999,063	1,507,728	273,105
Business-type activities:				
Water and sewer	3,816,896	4,020,673	-	-
Municipal Ice Arena	1,339,335	1,172,484	-	-
Total business-type activities	5,156,231	5,193,157	-	-
Total primary government	\$ 20,774,343	\$ 9,192,220	\$ 1,507,728	\$ 273,105
Component units:				
Downtown Development Authority	798,388	-	-	-
Brownfield Development Authority	2,692	5,000	-	-
Total component units	\$ 801,080	\$ 5,000	\$ -	\$ -
General revenues:				
Property taxes				
State-shared revenues				
Race track breakage				
Unrestricted investment earnings				
Franchise fees				
Loss on sale of capital assets				
Transfers				
Total general revenues and transfers				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year				
Net Assets (Deficit) - End of year				

Statement of Activities
Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (2,060,046)	\$ -	\$ (2,060,046)	\$ -
(5,519,800)	-	(5,519,800)	-
(1,718,678)	-	(1,718,678)	-
(232,633)	-	(232,633)	-
(150,677)	-	(150,677)	-
(156,382)	-	(156,382)	-
(9,838,216)	-	(9,838,216)	-
-	203,777	203,777	-
-	(166,851)	(166,851)	-
-	36,926	36,926	-
(9,838,216)	36,926	(9,801,290)	-
-	-	-	(798,388)
-	-	-	2,308
-	-	-	(796,080)
7,393,586	-	7,393,586	1,084,667
2,482,835	-	2,482,835	-
489,251	-	489,251	-
196,453	70,222	266,675	13,289
175,372	-	175,372	-
(20,418)	-	(20,418)	-
(298,236)	298,236	-	-
10,418,843	368,458	10,787,301	1,097,956
580,627	405,384	986,011	301,876
16,721,458	4,593,852	21,315,310	(4,030,565)
\$ 17,302,085	\$ 4,999,236	\$ 22,301,321	\$ (3,728,689)

City of Hazel Park, Michigan

Governmental Funds Balance Sheet June 30, 2008

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 1,199,642	\$ 1,802,412	\$ 3,002,054
Receivables - Net (Note 4)	551,176	32,804	583,980
Due from other governmental units (Note 4)	519,798	189,208	709,006
Due from other funds (Note 6)	108,490	-	108,490
Prepaid costs and other assets	380,795	14,165	394,960
Property held for resale	100,000	-	100,000
Inventory	44,914	-	44,914
Total assets	<u>\$ 2,904,815</u>	<u>\$ 2,038,589</u>	<u>\$ 4,943,404</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 506,094	\$ 120,333	\$ 626,427
Accrued and other liabilities	1,346,814	41,339	1,388,153
Due to other funds (Note 6)	-	108,490	108,490
Deferred revenue (Note 4)	303,531	58,361	361,892
Total liabilities	2,156,439	328,523	2,484,962
Fund Balances			
Reserved for:			
Prepaid costs	280,657	-	280,657
Inventory	44,914	-	44,914
Property held for resale	100,000	-	100,000
Unreserved, reported in:			
General Fund	322,805	-	322,805
Special Revenue Funds	-	1,710,066	1,710,066
Total fund balances	748,376	1,710,066	2,458,442
Total liabilities and fund balances	<u>\$ 2,904,815</u>	<u>\$ 2,038,589</u>	
Amounts reported for governmental activities in the statement of net assets are different because:			
Capital assets used in governmental activities are not financial resources and are not reported in the funds			20,438,860
Long-term liabilities are not due and payable in the current period and are not reported in the funds			(6,065,594)
Amounts earned during the year but not received within 60 days of year end are not reported in the funds			315,386
Accrued interest on long-term liabilities is not due and payable in the current period and is not reported in the funds			(35,009)
Internal Service Funds are reported as governmental activities			190,000
Net assets of governmental activities			<u>\$ 17,302,085</u>

City of Hazel Park, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2008

	General Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 6,604,726	\$ 772,755	\$ 7,377,481
Licenses and permits	398,989	-	398,989
Federal grants	106,108	353,735	459,843
State-shared revenues and grants	2,495,911	1,120,035	3,615,946
Race track breakage	425,648	63,603	489,251
Charges for services	981,161	467,493	1,448,654
Fines and forfeitures	1,733,428	63,998	1,797,426
Interest	108,245	85,907	194,152
Rentals	57,565	-	57,565
Other	813,635	148,515	962,150
Total revenue	13,725,416	3,076,041	16,801,457
Expenditures			
Current:			
General government	4,422,578	4,314	4,426,892
Public safety	6,697,928	193,783	6,891,711
Public works	642,341	1,900,969	2,543,310
Community and economic development	564,908	-	564,908
Recreation and culture	372,314	-	372,314
Capital outlay	-	915,053	915,053
Debt service	-	398,753	398,753
Total expenditures	12,700,069	3,412,872	16,112,941
Excess of Revenue Over (Under) Expenditures	1,025,347	(336,831)	688,516
Other Financing Sources (Uses)			
Proceeds from the issuance of long-term debt	-	372,221	372,221
Transfers in	16,255	600,610	616,865
Transfers out	(842,746)	(72,355)	(915,101)
Total other financing sources (uses)	(826,491)	900,476	73,985
Net Change in Fund Balances	198,856	563,645	762,501
Fund Balances - Beginning of year	549,520	1,146,421	1,695,941
Fund Balances - End of year	<u>\$ 748,376</u>	<u>\$ 1,710,066</u>	<u>\$ 2,458,442</u>

City of Hazel Park, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2008

Net Change in Fund Balances - Total Governmental Funds	\$ 762,501
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	952,116
Depreciation on capital assets reported as part of governmental activities	(1,135,242)
Loss resulting from disposals of capital assets is reported in the statement of activities, but not in the fund statements	(20,418)
Repayment of long-term obligations is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	256,296
Proceeds from the issuance of long-term obligations is recorded as other financing sources in the governmental funds, but not in the statement of activities (where it increases long-term debt)	(372,221)
Pension expense related to net pension obligation is recorded in the statement of activities, but not in the governmental funds	17,050
Revenue reported in the statement of activities that did not provide current financial resources and is reported as revenue in the governmental funds in the year collected	235,316
Increases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities	(288,733)
Increase in accrued interest expense is recorded when incurred in the statement of activities	(14,425)
Internal Service Funds are included as governmental activities	188,387

Change in Net Assets of Governmental Activities	\$ 580,627
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City of Hazel Park, Michigan

Proprietary Funds Statement of Net Assets (Deficit) June 30, 2008

	Enterprise Funds			Governmental Activities
	Water and Sewer	Municipal Ice Arena	Total Enterprise Funds	Internal Service Fund
Assets				
Current assets:				
Cash and investments (Note 3)	\$ 1,184,193	\$ 2,400	\$ 1,186,593	\$ 191,735
Receivables - Net (Note 4)	1,068,209	46,570	1,114,779	-
Inventories	11,321	-	11,321	-
Prepaid costs and other assets	108,298	161,691	269,989	148,265
Total current assets	2,372,021	210,661	2,582,682	340,000
Noncurrent assets:				
Restricted assets (Note 8)	107,500	-	107,500	-
Capital assets - Net (Note 5)	7,306,007	7,310,301	14,616,308	-
Total noncurrent assets	7,413,507	7,310,301	14,723,808	-
Total assets	9,785,528	7,520,962	17,306,490	340,000
Liabilities				
Current liabilities:				
Accounts payable	315,790	43,533	359,323	-
Accrued and other liabilities	49,794	101,280	151,074	150,000
Current portion of long-term debt (Note 7)	391,264	302,610	693,874	-
Total current liabilities	756,848	447,423	1,204,271	150,000
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	3,583,185	7,519,798	11,102,983	-
Total liabilities	4,340,033	7,967,221	12,307,254	150,000
Net Assets (Deficit)				
Investment in capital assets - Net of related debt	3,438,869	(489,699)	2,949,170	-
Restricted - Revenue bond	107,500	-	107,500	-
Unrestricted	1,899,126	43,440	1,942,566	190,000
Total net assets (deficit)	<u>\$ 5,445,495</u>	<u>\$ (446,259)</u>	<u>\$ 4,999,236</u>	<u>\$ 190,000</u>

City of Hazel Park, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets (Deficit) Year Ended June 30, 2008

	Enterprise Funds			Governmental Activities
	Water and Sewer	Municipal Ice Arena	Total Enterprise Funds	Internal Service Fund
Operating Revenue				
Sale of water	\$ 1,762,044	\$ -	\$ 1,762,044	\$ -
Sewage disposal charges	1,910,664	-	1,910,664	-
Charges for services	336,091	-	336,091	-
City contributions	-	-	-	1,879,538
Rental income	-	1,092,732	1,092,732	-
Concessions	-	56,780	56,780	-
Pro shop	-	18,000	18,000	-
Other operating income	11,874	4,972	16,846	-
Total operating revenue	4,020,673	1,172,484	5,193,157	1,879,538
Operating Expenses				
Cost of water produced/purchased	484,315	-	484,315	-
Cost of sewage treatment	1,004,688	-	1,004,688	-
Operation and maintenance	1,261,556	659,982	1,921,538	-
General and administrative	562,888	128,282	691,170	-
Depreciation and amortization	351,635	180,708	532,343	-
Benefit payments and claims administration	-	-	-	1,703,426
Total operating expenses	3,665,082	968,972	4,634,054	1,703,426
Operating Income	355,591	203,512	559,103	176,112
Nonoperating Income (Expense)				
Interest income	69,723	499	70,222	12,275
Interest expense	(151,814)	(370,363)	(522,177)	-
Income (Loss) - Before transfers	273,500	(166,352)	107,148	188,387
Transfers from Other Funds	-	298,236	298,236	-
Change in Net Assets	273,500	131,884	405,384	188,387
Net Assets (Deficit) - Beginning of year	5,171,995	(578,143)	4,593,852	1,613
Net Assets (Deficit) - End of year	<u>\$ 5,445,495</u>	<u>\$ (446,259)</u>	<u>\$ 4,999,236</u>	<u>\$ 190,000</u>

City of Hazel Park, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2008

	Enterprise Funds		Governmental Activities
	Water and Sewer	Municipal Ice Arena	Internal Service Fund
Cash Flows from Operating Activities			
Receipts from customers	\$ 4,060,632	\$ 1,152,164	\$ -
Contributions received	-	-	1,879,538
Payments to suppliers	(2,775,302)	(481,837)	-
Payments to employees	(644,975)	(311,225)	-
Claims paid	-	-	(1,800,204)
Net cash provided by operating activities	640,355	359,102	79,334
Cash Flows from Noncapital and Related Financing Activities -			
Transfers from other funds	-	298,236	-
Cash Flows from Capital and Related Financing Activities			
Purchase of capital assets	(196,475)	-	-
Principal and interest paid on capital debt	(507,894)	(673,625)	-
Net cash used in capital and related financing activities	(704,369)	(673,625)	-
Cash Flows from Investing Activities - Interest received on investments	69,723	499	12,275
Net Increase (Decrease) in Cash and Cash Equivalents	5,709	(15,788)	91,609
Cash and Cash Equivalents - Beginning of year	1,285,984	18,188	100,126
Cash and Cash Equivalents - End of year	\$ 1,291,693	\$ 2,400	\$ 191,735
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 1,184,193	\$ 2,400	\$ 191,735
Restricted assets	107,500	-	-
Total cash and cash equivalents	\$ 1,291,693	\$ 2,400	\$ 191,735

(Continued on next page)

City of Hazel Park, Michigan

Proprietary Funds Statement of Cash Flows (Continued) Year Ended June 30, 2008

	Enterprise Funds		Governmental Activities
	Water and Sewer	Municipal Ice Arena	Internal Service Fund
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 355,591	\$ 203,512	\$ 176,112
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation and amortization	351,635	180,708	-
Net pension obligation	(997)	(163)	-
Changes in assets and liabilities:			
Receivables	39,959	(20,320)	-
Inventory	28,203	-	-
Other assets	(1,426)	(568)	(26,778)
Accounts payable	(140,438)	592	-
Accrued and other liabilities	7,828	(4,659)	(70,000)
Net cash provided by operating activities	\$ 640,355	\$ 359,102	\$ 79,334

Noncash Capital and Related Financing Activities - During the year, the County issued bonds related to the George W. Kuhn drainage system, in which the City shares in a portion of the costs. The City's share of the long-term debt and related fixed asset was \$15,890. In addition, the County refunded \$258,045 in bonds related to the George W. Kuhn drainage system through the issuance of new debt.

City of Hazel Park, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2008

	Agency Funds
	<hr/>
Assets - Cash (Note 3)	<u>\$ 217,728</u>
Liabilities	
Accrued and other liabilities	\$ 160,755
Due to other governmental units	<u>56,973</u>
Total liabilities	<u>\$ 217,728</u>

City of Hazel Park, Michigan

Component Units Combining Statement of Net Assets (Deficit) June 30, 2008

	Downtown Development Authority	Brownfield Redevelopment Authority	Total
Assets			
Cash and investments (Note 3)	\$ 92,601	\$ 6,788	\$ 99,389
Receivables (Note 4)	30,553	-	30,553
Capital assets - Net (Note 5):			
Assets not being depreciated	154,766	-	154,766
Assets being depreciated	<u>109,345</u>	<u>-</u>	<u>109,345</u>
Total assets	387,265	6,788	394,053
Liabilities			
Accounts payable	-	2,692	2,692
Accrued and other liabilities	47,284	-	47,284
Noncurrent liabilities (Note 7):			
Due within one year	339,380	-	339,380
Due in more than one year	<u>3,733,386</u>	<u>-</u>	<u>3,733,386</u>
Total liabilities	4,120,050	2,692	4,122,742
Net Assets (Deficit)			
Invested in capital assets - Net of related debt	236,345	-	236,345
Unrestricted	<u>(3,969,130)</u>	<u>4,096</u>	<u>(3,965,034)</u>
Total net assets (deficit)	<u>\$ (3,732,785)</u>	<u>\$ 4,096</u>	<u>\$ (3,728,689)</u>

City of Hazel Park, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Component units:				
Downtown Development Authority	\$ 798,388	\$ -	\$ -	\$ -
Brownfield Redevelopment Authority	<u>2,692</u>	<u>5,000</u>	<u>-</u>	<u>-</u>
Total component units	<u>\$ 801,080</u>	<u>\$ 5,000</u>	<u>\$ -</u>	<u>\$ -</u>
General revenues:				
Property taxes				
Unrestricted investment earnings				
Total general revenues				
Change in Net Assets				
Net Assets (Deficit) - Beginning of year				
Net Assets (Deficit) - End of year				

Component Units
Combining Statement of Activities
Year Ended June 30, 2008

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities		
Downtown Development Authority	Brownfield Redevelopment Authority	Total Component Units
\$ (798,388)	\$ -	\$ (798,388)
-	2,308	2,308
(798,388)	2,308	(796,080)
1,083,085	1,582	1,084,667
13,083	206	13,289
1,096,168	1,788	1,097,956
297,780	4,096	301,876
(4,030,565)	-	(4,030,565)
\$ (3,732,785)	\$ 4,096	\$ (3,728,689)

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the City of Hazel Park, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Hazel Park, Michigan:

Reporting Entity

The City of Hazel Park, Michigan is governed by an elected five-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City (see discussion below for description).

Blended Component Units

The Hazel Park Building Authority is governed by a five-member board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings. The activity of the Hazel Park Building Authority is reported within the General Fund and Municipal Ice Arena Enterprise Fund.

Discretely Presented Component Units

The Downtown Development Authority (the "DDA") was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body is approved by the City Council. In addition, the DDA's budget is subject to approval by the City. The DDA does not issue a separate financial statement.

The Brownfield Redevelopment Authority was created, pursuant to Public Act 381 of 1996, to promote revitalization of environmentally distressed areas within the City's boundaries. The Brownfield Redevelopment Authority is funded primarily by property tax revenue captures. The Brownfield Redevelopment Authority is governed by a five-member board that is appointed by City Council. The Brownfield Redevelopment Authority does not issue a separate financial statement.

Note 1 - Summary of Significant Accounting Policies (Continued)

Jointly Governed Organization - Jointly governed organizations are discussed in Note 12.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets (deficit) and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 63 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual - that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, state-shared revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period.

The City reports the following major governmental fund:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major Enterprise Funds:

Water and Sewer Fund - The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.

Municipal Ice Arena Fund - The Municipal Ice Arena Fund accounts for the operations of Viking Ice Arena.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for risk management services provided to other departments of the City on a cost reimbursement basis.

Note 1 - Summary of Significant Accounting Policies (Continued)

Agency Funds - Agency Funds account for assets held by the City for individuals, organizations, other governments, or other funds. They are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its Enterprise Funds.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. To the extent that cash from various funds has been pooled, pooled investment income is generally allocated to each fund using a weighted average of balance for the principal.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on August 31, at which time penalties and interest are assessed.

The City's 2007 tax is levied and collectible on July 1, 2007 and is recognized as revenue in the year ended June 30, 2008, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2007 taxable valuation of the City totaled \$341 million (a portion of which is abated and a portion of which is captured by the DDA and Brownfield Redevelopment Authority), on which taxes levied consisted of 19.5399 mills for operating purposes and 2.4334 mills for garbage and rubbish. This resulted in approximately \$6.2 million for operating, and approximately \$770,000 for garbage and rubbish, net of captured taxes. These amounts are recognized in the respective General and Special Revenue Funds financial statements as property tax revenue.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the Water and Sewer Fund require amounts to be set aside for bond reserves. These amounts have been classified as restricted assets.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Land improvements	20 years
Water and sewer distribution systems	30-50 years
Buildings and building improvements	10-50 years
Vehicles	6 years
Machinery and equipment	5-20 years
Infrastructure	20-50 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Vacation pay is accrued when earned, and sick pay is accrued when vested (or likely to vest). A liability is accrued when incurred in the government-wide and proprietary fund financial statements.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets (deficit). Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Note 2 - Compliance and Accountability

Fund Deficits - The Municipal Ice Arena Fund has an accumulated deficit of \$446,259. The City plans to eliminate the deficit through operating transfers from the General Fund. The General Fund will subsidize the ice arena's operations each year in the amount needed to cover any cash flow shortages.

The Byrne Memorial Justice Grant Fund has an accumulated deficit of \$10,135. This deficit is due to the timing of grant reimbursements. The deficit will be eliminated in the year ending June 30, 2009 when the grant funds are received.

The Downtown Development Authority Fund has an accumulated deficit of \$3,732,785 on the government-wide financial statements. The deficit is the result of recording long-term debt for infrastructure projects on behalf of the City. The debt is recorded by the DDA, while the related asset is recorded by the City. The Downtown Development Authority Fund does not have a deficit at the fund level. In fact, at the fund level, the DDA has fund balance of \$92,601.

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2008

Note 2 - Compliance and Accountability (Continued)

Construction Code Fees - The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Cumulative surplus - July 1, 2007	\$ 103,868
Revenue	145,097
Related expenses:	
Direct costs	(242,614)
Estimated indirect costs	<u>(26,225)</u>
Total construction code expenses	<u>(268,839)</u>
Cumulative deficit - June 30, 2008	<u><u>\$ (19,874)</u></u>

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The City is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated seven banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above.

Note 3 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had approximately \$2,800,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Custodial Credit Risk of Investments - Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have a policy for custodial credit risk. At year end, the City had no investment securities that were uninsured and unregistered, held by the counterparty or by its trust department or agent but not in the City's name.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the City had no investment securities susceptible to interest rate risk.

Credit Risk - State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U.S. government) are as follows:

Investment	Fair Value	Rating	Rating Organization
Bank investment pool	\$ 1,187,058	A-I	Standard & Poor's
Bank investment pool	174,893	AAAm	Standard & Poor's
Bank investment pool	25,561	Not rated	N/A

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2008

Note 4 - Receivables and Deferred Revenue

Receivables as of year end for the City's individual major funds and the nonmajor, Internal Service, and fiduciary funds in the aggregate, are as follows:

	General Fund	Nonmajor and Other Funds	Business-type Activities	Total	Component Units
Receivables:					
Special assessments	\$ 287,426	\$ 73,104	\$ -	\$ 360,530	\$ 30,553
Delinquent personal property taxes	133,537	-	-	133,537	\$ -
Receivables from operations	132,068	-	1,175,086	1,307,154	-
Other	115,577	-	-	115,577	-
Due from other governmental units	519,798	189,208	-	709,006	-
Less allowance for uncollectibles	(117,432)	(40,300)	(60,307)	(218,039)	-
Total receivables - Net	<u>\$ 1,070,974</u>	<u>\$ 222,012</u>	<u>\$ 1,114,779</u>	<u>\$ 2,407,765</u>	<u>\$ 30,553</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	Unavailable	Unearned	Total
Special assessments	\$ 287,426	\$ -	\$ 287,426
Personal property taxes	16,105	-	16,105
Cable equipment	-	5,000	5,000
Police training	-	41,506	41,506
Byrne Memorial Justice Grant	11,855	-	11,855
Total	<u>\$ 315,386</u>	<u>\$ 46,506</u>	<u>\$ 361,892</u>

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets

Capital asset activity of the City's governmental, business-type, and component unit activities was as follows:

Governmental Activities	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated -				
Land	\$ 1,194,004	\$ -	\$ -	\$ 1,194,004
Capital assets being depreciated:				
Land improvements	906,100	-	-	906,100
Buildings and improvements	2,036,126	83,500	-	2,119,626
Machinery and equipment	5,199,233	868,616	(234,670)	5,833,179
Infrastructure:				
Roadways	35,256,684	-	-	35,256,684
Sidewalks	8,559,555	-	-	8,559,555
Street lights	352,800	-	-	352,800
Subtotal	52,310,498	952,116	(234,670)	53,027,944
Accumulated depreciation:				
Land improvements	821,418	11,915	-	833,333
Buildings and improvements	1,614,127	33,310	-	1,647,437
Machinery and equipment	4,368,178	231,237	(214,252)	4,385,163
Infrastructure:				
Roadways	22,242,992	669,949	-	22,912,941
Sidewalks	3,630,163	171,191	-	3,801,354
Street lights	185,220	17,640	-	202,860
Subtotal	32,862,098	1,135,242	(214,252)	33,783,088
Net capital assets being depreciated	19,448,400	(183,126)	(20,418)	19,244,856
Net capital assets	\$ 20,642,404	\$ (183,126)	\$ (20,418)	\$ 20,438,860

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

Business-type Activities	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Capital assets not being depreciated -				
Land	\$ 891,033	\$ -	\$ -	\$ 891,033
Capital assets being depreciated:				
Land improvements	416,994	-	-	416,994
Water and sewer distribution systems	13,378,120	212,365	-	13,590,485
Buildings and building improvements	8,093,333	-	-	8,093,333
Vehicles	616,442	-	-	616,442
Machinery and equipment	1,717,250	-	-	1,717,250
Subtotal	24,222,139	212,365	-	24,434,504
Accumulated depreciation:				
Land improvements	170,897	15,705	-	186,602
Water and sewer distribution systems	7,095,769	258,438	-	7,354,207
Buildings and building improvements	1,558,328	157,470	-	1,715,798
Vehicles	616,442	-	-	616,442
Machinery and equipment	747,734	88,446	-	836,180
Subtotal	10,189,170	520,059	-	10,709,229
Net capital assets being depreciated	14,032,969	(307,694)	-	13,725,275
Net capital assets	\$ 14,924,002	\$ (307,694)	\$ -	\$ 14,616,308
Component Unit				
Capital assets not being depreciated -				
Land	\$ 154,766	\$ -	\$ -	\$ 154,766
Capital assets being depreciated -				
Land improvements	230,200	-	-	230,200
Accumulated depreciation - Land improvements	109,345	11,510	-	120,855
Net capital assets being depreciated	120,855	(11,510)	-	109,345
Net capital assets	\$ 275,621	\$ (11,510)	\$ -	\$ 264,111

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2008

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 21,443
Public safety	175,518
Public works	906,830
Economic development	471
Recreation and culture	<u>30,980</u>

Total governmental activities	<u><u>\$ 1,135,242</u></u>
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Business-type activities:

Water and Sewer	\$ 347,421
Municipal Ice Arena	<u>172,638</u>

Total business-type activities	<u><u>\$ 520,059</u></u>
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Note 6 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Nonmajor governmental fund:	
	Major Street Fund	\$ 89,781
	Community Development Block Grant	500
	Byrne Memorial Justice Grant	6,735
	Auto Theft Prevention Fund	<u>11,474</u>
	Total	<u><u>\$ 108,490</u></u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2008

Note 6 - Interfund Receivables, Payables, and Transfers (Continued)

Interfund Transfers

Fund Transferred From	Fund Transferred To	Amount
General Fund	Nonmajor governmental funds:	
	Auto Theft Prevention Fund	(2) \$ 35,510
	Employee Sick and Vacation Fund	(6) 75,000
	Capital Improvement and Replacement Fund	(5) 434,000
	Major Proprietary Fund - Municipal Ice Arena	(3) <u>298,236</u>
	Total General Fund	842,746
Nonmajor governmental funds:		
Capital Improvement and Replacement Fund	Major Fund - General Fund	(1) 16,255
Major Streets Fund	Nonmajor governmental funds:	
Auto Theft Prevention Fund	Local Streets Fund	(4) 50,000
	Capital Improvement and Replacement Fund	(5) <u>6,100</u>
	Total nonmajor governmental funds	<u>72,355</u>
	Total funds	<u>\$ 915,101</u>

- (1) Return of previous transfers in
- (2) Transfer for City match of grants
- (3) Transfer for operating subsidy
- (4) Transfer of Act 51 monies to fund local street expenditures
- (5) Transfer for future capital needs
- (6) Transfer to fund future sick and vacation payout

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from acquired or constructed assets to pay debt service.

The Water and Sewer Fund revenue bonds are payable solely from the net revenues of the system and are not a general obligation of the City. The City has agreed to fix and maintain the system and to provide rates for service provided by the system sufficient to provide for payment of necessary expenses of the system, including the principal and interest on the bonds, when due.

The accumulated compensated absences represent the estimated liability to be paid to governmental fund-type employees under the City's sick and vacation pay policy. Under the City's policy, employees earn sick and vacation time based on time of service with the City.

Long-term obligation activity can be summarized as follows:

	Interest Rate Range	Principal Maturity Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Michigan transportation revenue bonds:							
MI Transportation Bonds Series 1997A:							
Amount of issue - \$475,000	5.72% -	\$35,000 -					
Maturing through 2012	5.80%	\$50,000	\$ 205,000	\$ -	\$ (35,000)	\$ 170,000	\$ 35,000
MI Transportation Bonds Series 1999:							
Amount of issue - \$3,700,000	4.48% -	\$200,000 -					
Maturing through 2017	4.63%	\$300,000	2,500,000	-	(200,000)	2,300,000	200,000
Police vehicles:							
Original amount - \$63,281		\$2,925 -					
Maturing through 2009	3.15%	\$18,258	38,824	-	(17,641)	21,183	18,258
Original amount - \$74,000		\$23,590 -					
Maturing through June 2011	4.35%	\$25,722	-	74,000	(55)	73,945	23,590
Fire truck installment purchase agreement:							
Original amount - \$298,221		\$19,267 -					
Maturing January 2018	5.10%	\$37,109	-	298,221	(3,600)	294,621	24,803
Net pension obligation	N/A	N/A	1,363,214	-	(17,050)	1,346,164	18,414
Compensated absences	N/A	N/A	1,263,948	95,733	-	1,359,681	212,015
General liability self-insurance claims	N/A	N/A	307,000	193,000	-	500,000	-
Total governmental activities			\$ 5,677,986	\$ 660,954	\$ (273,346)	\$ 6,065,594	\$ 532,080

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

	Interest Rate Range	Principal Maturity Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities							
Water and Sewer:							
Water Supply and Sewage Disposal System -							
Revenue Bonds - Series 1999:							
Amount of issue - \$1,640,000	4.57% -	\$100,000 -					
Maturing through 2017	4.90%	\$125,000	\$ 1,175,000	\$ -	\$ (100,000)	\$ 1,075,000	\$ 100,000
County Contractual Agreements (Note 14):							
Drain Bonds Series 2000A:							
Amount of issue - \$391,341		\$17,729					
Maturing through 2022	2.50%	\$24,514	310,797	-	(17,291)	293,506	17,729
Drain Bonds Series 2000B:							
Amount of issue - \$143,798		\$5,472 -					
Maturing through 2022	5.00%	\$6,019	119,721	-	(113,702)	6,019	5,472
Drain Bonds Series 2001C:							
Amount of issue - \$1,799,117		\$77,699					
Maturing through 2024	2.50%	\$112,609	1,582,436	-	(75,839)	1,506,597	77,699
Drain Bonds Series 2001D:							
Amount of issue - \$69,382		\$3,064 -					
Maturing through 2024	1.625%	\$4,377	33,706	-	(3,064)	30,642	3,064
Drain Bonds Series 2001E:							
Amount of issue - \$216,026	4.52% -	\$8,208 -					
Maturing through 2024	4.60%	\$9,302	193,043	-	(158,023)	35,020	8,208
Drain Bonds Series 2005:							
Amount of issue - \$17,273		\$1,532 -					
Maturing through 2026	1.625%	\$2,079	15,741	-	(1,532)	14,209	1,532
Drain Bonds Series 2007:							
Amount of issue - \$272,714	4.30% -	\$5,143 -					
Maturing through 2024	4.37%	\$24,842	-	272,714	(5,143)	267,571	1,423
Drain Bonds Series 2007G:							
Amount of issue - \$15,890		\$1,642 -					
Maturing through 2028	1.625%	\$1,860	-	15,890	(39)	15,851	1,642
Installment Purchase Agreement -							
Water Meter Installation:							
Original amount - \$1,100,000		\$158,165 -					
Maturing through 2012	3.69%	\$170,222	775,259	-	(152,536)	622,723	158,165
Ice Arena - Building Authority Ice Arena							
Bonds 1999:							
Amount of issue - \$9,700,000	4.62% -	\$300,000 -					
Maturing through 2024	4.70%	\$600,000	8,100,000	-	(300,000)	7,800,000	300,000
Net pension obligation	N/A	N/A	92,677	-	(1,160)	91,517	1,251
Compensated absences	N/A	N/A	40,218	-	(2,016)	38,202	17,689
Total business-type activities			\$ 12,438,598	\$ 288,604	\$ (930,345)	\$ 11,796,857	\$ 693,874

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2008

Note 7 - Long-term Debt (Continued)

	Interest Rate Range	Principal Maturity Range	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Component Unit Activities							
General obligation bonds:							
General Obligation 1994:							
Amount of issue - \$895,000		\$50,000 -					
Maturing through 2013	5.80%	\$95,000	\$ 560,000	\$ -	\$ (65,000)	\$ 495,000	\$ 70,000
General Obligation 1994:							
Amount of issue - \$1,800,000	7.08%	\$130,000 -					
Maturing through 2013	7.10%	\$150,000	1,050,000	-	(150,000)	900,000	150,000
General Obligation 1997:							
Amount of issue - \$2,175,000	5.40%	\$50,000 -					
Maturing through 2020	5.50%	\$175,000	1,870,000	-	(70,000)	1,800,000	80,000
Limited Tax Development Bonds 1999:							
Amount of issue - \$975,000	4.91%	\$25,000 -					
Maturing through 2019	5.00%	\$100,000	875,000	-	(25,000)	850,000	25,000
Shammami Project:							
Original amount - \$120,000		\$1,499 -					
Maturing through 2011	6.00%	\$12,158	42,627	-	(14,861)	27,766	14,380
Total component unit activities			\$ 4,397,627	\$ -	\$ (324,861)	\$ 4,072,766	\$ 339,380

Annual debt service requirements to maturity for the above governmental, business-type, and component unit bond and note obligations are as follows:

	Governmental Activities			Business-type Activities			Component Unit Activities		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2009	\$ 301,651	\$ 130,558	\$ 432,209	\$ 674,934	\$ 489,923	\$ 1,164,857	\$ 339,380	\$ 222,529	\$ 561,909
2010	293,642	117,840	411,482	685,120	463,487	1,148,607	351,451	201,856	553,307
2011	298,153	104,601	402,754	818,885	436,687	1,255,572	381,935	180,082	562,017
2012	278,848	91,294	370,142	782,089	403,930	1,186,019	420,000	156,017	576,017
2013	330,338	78,103	408,441	655,557	374,481	1,030,038	435,000	130,662	565,662
2014-2018	1,357,117	159,381	1,516,498	3,597,831	1,423,155	5,020,986	1,495,000	362,680	1,857,680
2019-2023	-	-	-	3,726,324	640,118	4,366,442	650,000	48,313	698,313
2024	-	-	-	726,398	31,619	758,017	-	-	-
Total	\$ 2,859,749	\$ 681,777	\$ 3,541,526	\$ 11,667,138	\$ 4,263,400	\$ 15,930,538	\$ 4,072,766	\$ 1,302,139	\$ 5,374,905

Note 7 - Long-term Debt (Continued)

The City has pledged substantially all revenue of the Water and Sewer Fund, net of operating expenses, to repay the above water and sewer revenue bonds and County contractual obligations. Proceeds from the revenue bonds provided financing for the cost of acquiring and constructing additions, extensions, and improvements to the City's water supply and sewage disposal system. As discussed in Note 14, proceeds from the County bonds provided financing for the improvements to the Twelve Towns Retention Treatment Facility. The bonds and County contractual obligations are payable solely from the net revenues of the water and sewer system. The remaining principal and interest to be paid on the revenue bonds and County contractual obligations is \$3,244,415. During the current year, net revenues of the system were \$355,591 compared to the annual debt requirements of \$328,571.

Note 8 - Restricted Assets

Restricted assets at June 30, 2008 consist of cash and investments restricted for revenue bond reserve requirements of \$107,500 in the Water and Sewer Fund.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City participates in the Michigan Municipal Risk Management Authority risk pool for claims relating to property loss, torts, and errors and omissions, participates in the Michigan Municipal League risk pool for employee injuries (workers' compensation), is uninsured for medical benefit claims, and has purchased commercial insurance for dental, optical, and life insurance claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority (the "Authority") risk pool program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority that the Authority uses to pay claims up to retention limits, the ultimate liability for those claims remains with the City.

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2008

Note 9 - Risk Management (Continued)

The City estimates the liability for general liability and medical benefit claims that have been incurred through the end of the fiscal year, including claims that have been reported as well as those that have not yet been reported. Changes in the estimated liability for the past two fiscal years were as follows:

	Medical	General Liability
Unpaid claims - June 30, 2006	\$ 220,000	\$ 307,000
Incurred claims (including claims incurred but not reported)	2,588,069	106,688
Claim payments	<u>(2,588,069)</u>	<u>(106,688)</u>
Unpaid claims - June 30, 2007	220,000	307,000
Incurred claims (including claims incurred but not reported)	1,809,538	270,289
Claim payments	<u>(1,879,538)</u>	<u>(77,289)</u>
Unpaid claims - June 30, 2008	<u>\$ 150,000</u>	<u>\$ 500,000</u>

The liability for medical claims is recorded in the City's Internal Service Fund. The liability for general liability claims is not expected to be liquidated with expendable available financial resources and is recorded as a noncurrent liability in the statement of net assets (deficit).

Note 10 - Defined Benefit Pension Plan

Plan Description - During the prior year, the City's employees began to participate in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's collective bargaining units.

Note 10 - Defined Benefit Pension Plan (Continued)

Annual Pension Costs - For the year ended June 30, 2008, the City's annual pension cost of \$1,151,191 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation dated November 1, 2006.

Actuarial Methods and Assumptions - In the November 1, 2006 actuarial valuation (the most recent actuarial valuation) the entry age normal cost actuarial method was used. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, attributable to inflation, and (c) an additional salary increase of 0 percent to 8.4 percent per year, attributable to seniority/merit. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a 10-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 28 years.

As stated above, the City's participation in the plan commenced during the previous fiscal year. The only actuarial valuation available is the initial valuation; therefore, no information has been included regarding the funding status of the plan. An actuarial valuation will be performed for the year ending December 31, 2008.

Note 11 - Postemployment Benefits

The City provides healthcare benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 127 retirees are eligible. The City includes pre-Medicare retirees and their dependents in its self-insured healthcare plan with no contribution required by the participant. Expenditures for postemployment healthcare benefits are recognized as the claims are incurred; during the year, this amounted to approximately \$1,626,000.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

City of Hazel Park, Michigan

Notes to Financial Statements June 30, 2008

Note 12 - Joint Venture

The City is a member of the Southeastern Oakland County Resource Recovery Authority (the "Resource Recovery Authority"), which provides solid waste disposal services to residents and businesses of Hazel Park and other participating communities. The participating communities provide annual funding for its operations. During the year ended June 30, 2008, the Resource Recovery Authority reported a decrease in net assets in the amount of \$74,529 resulting in ending net assets of \$5,819,732. During the current year, the City contributed approximately \$959,000 for its operations. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future. Complete financial statements for the Southeastern Oakland County Resource Recovery Authority can be obtained from the administrative offices at 3910 Webster Road, Royal Oak, MI 48073.

Note 13 - Contingent Liabilities

The City has been named as a defendant in multiple claims and lawsuits requesting damages of various amounts. The various proceedings have not yet progressed to the point where legal opinions can be reached as to the ultimate liabilities, if any, after consideration of available insurance, where applicable, that may result from the resolution of these matters. The City has not recorded an estimate of this liability as of June 30, 2008.

Note 14 - Commitments

In a prior fiscal period, the City and all other member communities of the Southeast Oakland County Sewage Disposal System (SOCSDS) agreed to a new National Pollutant Discharge Elimination Systems (NPDES) permit, which resulted in the settlement of a contested case hearing between the Michigan Department of Environmental Quality, Oakland County, Macomb County, the City of Detroit, and the SOCSDS communities. The issuance of the new NPDES permit required the SOCSDS member communities, as co-permittees, to undertake improvements to the Twelve Towns Retention Treatment Facility to expand the capacity and enhance the performance of the wastewater retention treatment facility. The estimated total cost of the project is \$130 million, with the City's estimated share approximating \$3 million. To finance the project, the SOCSDS has issued debt, with each community funding their proportionate share of the debt service payments. The SOCSDS has been able to obtain grant funding and low interest State Revolving Fund money to subsidize and/or finance the improvements. As of June 30, 2008, the City has approximately \$2.2 million in outstanding debt related to this agreement (see Note 7).

Required Supplemental Information

City of Hazel Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes	\$ 6,721,500	\$ 6,582,350	\$ 6,604,726	\$ 22,376
Licenses and permits	412,000	401,260	398,989	(2,271)
Federal grants	-	-	106,108	106,108
State-shared revenues and grants	2,577,266	2,493,566	2,495,911	2,345
Race track breakage	456,750	401,750	425,648	23,898
Charges for services	2,084,050	2,110,690	2,133,395	22,705
Fines and forfeitures	1,759,175	1,759,175	1,733,428	(25,747)
Interest income	93,229	116,024	108,245	(7,779)
Rental income	65,000	59,300	57,565	(1,735)
Other	219,750	303,505	298,075	(5,430)
Transfer from other funds	16,255	16,255	16,255	-
Transfer from component unit	515,560	515,560	515,560	-
Total revenue	14,920,535	14,759,435	14,893,905	134,470
Expenditures				
General government:				
City Council	39,400	39,400	28,982	10,418
Judicial	1,270,175	1,270,175	1,154,575	115,600
City manager	313,585	318,785	304,359	14,426
Elections	47,150	35,050	24,248	10,802
Assessor	108,650	110,650	110,795	(145)
Attorney	193,432	191,742	192,511	(769)
City clerk	270,115	271,765	269,321	2,444
Accounting and finance	305,585	303,275	317,320	(14,045)
Treasurer	172,425	167,615	160,590	7,025
Building and grounds maintenance	201,055	195,885	191,510	4,375
Boards and commissions	26,405	20,845	14,664	6,181
General insurance and retiree health care	2,352,000	2,144,500	2,123,743	20,757
Total general government	5,299,977	5,069,687	4,892,618	177,069
Public safety:				
Police	4,496,875	4,395,575	4,293,007	102,568
Fire	2,469,555	2,448,400	2,404,921	43,479
Total public safety	6,966,430	6,843,975	6,697,928	146,047
Public works:				
Department of Public Service	669,215	695,715	681,142	14,573
Street lighting	320,130	320,130	289,750	30,380
Motor pool	331,805	351,845	353,643	(1,798)
Total public works	1,321,150	1,367,690	1,324,535	43,155

(Continued on next page)

City of Hazel Park, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2008

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures (Continued)				
Social services:				
Senior citizens program	\$ 62,105	\$ 62,105	\$ 61,353	\$ 752
Animal control	48,800	48,800	45,270	3,530
Youth assistance	1,000	1,000	-	1,000
Total social services	111,905	111,905	106,623	5,282
Recreation	291,510	283,510	265,691	17,819
Community and economic development:				
Planning Commission	4,800	2,600	2,426	174
Planning, building, and community development	639,088	642,718	561,753	80,965
Zoning Board of Appeals	4,500	1,800	729	1,071
Total community and economic development	648,388	647,118	564,908	82,210
Transfers to other funds	281,175	432,675	842,746	(410,071)
Total expenditures	14,920,535	14,756,560	14,695,049	61,511
Net Change in Fund Balance	-	2,875	198,856	195,981
Fund Balance - Beginning of year	264,913	549,520	549,520	-
Fund Balance - End of year	<u><u>\$ 264,913</u></u>	<u><u>\$ 552,395</u></u>	<u><u>\$ 748,376</u></u>	<u><u>\$ 195,981</u></u>

City of Hazel Park, Michigan

Note to Required Supplemental Information Year Ended June 30, 2008

Note - Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds, except that operating transfers and debt proceeds have been included in the “revenue” and “expenditures” categories, rather than as an “other financing sources/uses.” In addition, reimbursements of expenditures from other funds have been included in revenue, rather than a reduction of expenses.

The City follows these procedures in establishing the budget reflected in the financial statements:

1. The city manager, on or before 60 days prior to the commencement of the fiscal and budgetary year (July 1), shall prepare and submit to the City Council a complete itemized proposed budget for the next fiscal year.
2. A public hearing on the budget shall be held before its final adoption, at such time and place as the City Council shall direct, and notice of such public hearing shall be published at least 10 days in advance thereof by the clerk.
3. The Council shall, on or before 30 days prior to the commencement of the next fiscal year, adopt a budget for the ensuing fiscal year.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level. The city manager has the authority to approve budget amendments between line items within a department; however, any amendments changing department totals must be approved by the City Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

City of Hazel Park, Michigan

Note to Required Supplemental Information Year Ended June 30, 2008

Note - Budgetary Information (Continued)

A reconciliation of the budgetary comparison schedules to the fund-based statement of changes in fund balance is as follows:

	General Fund	
	Total Revenue	Total Expenditures
Amounts per operating statement	\$ 13,725,416	\$ 12,700,069
Operating transfers	16,255	842,746
Reimbursements from other funds	<u>1,152,234</u>	<u>1,152,234</u>
Amounts per budgetary comparison schedule	<u>\$ 14,893,905</u>	<u>\$ 14,695,049</u>

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the City of Hazel Park incurred expenditures that were in excess of the amounts budgeted in the General Fund as follows:

	Amended Budget	Actual	Variance
Accounting and finance	\$ 303,275	\$ 317,320	\$ (14,045)
Motorpool	351,845	353,643	(1,798)
Transfers to other funds	432,675	842,746	(410,071)

In the accounting and finance department, payroll service costs were greater than anticipated as well as additional software expenses were incurred that were not budgeted. In the motorpool department, the cost of replacement parts exceeded the amount budgeted, causing the variance. Transfers to other funds were greater than budgeted due to additional reserves recorded for upcoming capital improvement projects as well as for medical and general liability insurance. The expenditures in City's remaining departments were less than budgeted. In total, the General Fund expenditures were less than budget.

Other Supplemental Information

City of Hazel Park, Michigan

	Special Revenue					
	Major Streets	Local Streets	Garbage and Rubbish Collection	Police Training	Community Development Block Grant	Drug Law Enforcement
Assets						
Cash and investments	\$ -	\$ 8,638	\$ 606,258	\$ 28,131	\$ -	\$ 355,194
Receivables - Net of allowances	-	-	1,521	-	-	-
Prepaid costs	-	-	14,155	-	-	-
Due from other governmental units	119,178	46,211	-	-	500	-
Total assets	\$ 119,178	\$ 54,849	\$ 621,934	\$ 28,131	\$ 500	\$ 355,194
Liabilities and Fund Balances (Deficit)						
Liabilities						
Accounts payable	\$ 3,350	\$ -	\$ 80,393	\$ -	\$ -	\$ 350
Accrued and other liabilities	-	-	3,741	-	-	-
Due to other funds	89,781	-	-	-	500	-
Deferred revenue	-	-	-	28,131	-	-
Total liabilities	93,131	-	84,134	28,131	500	350
Fund Balances (Deficit) -						
Unreserved, undesignated	26,047	54,849	537,800	-	-	354,844
Total liabilities and fund balances (deficit)	\$ 119,178	\$ 54,849	\$ 621,934	\$ 28,131	\$ 500	\$ 355,194

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008**

Funds

			Capital				
Cable Public	Byrne	Auto Theft	Improvement	PA 495 Fire	9-11 Police	Sick and	Total Nonmajor
Information	Memorial	Prevention	and	Insurance	Training Fund	Vacation	Governmental
	Justice Grant		Replacement	Fund		Payout Fund	Funds
\$ 148,090	\$ -	\$ 223	\$ 519,905	\$ 37,598	\$ 13,375	\$ 85,000	\$ 1,802,412
23,024	-	-	8,259	-	-	-	32,804
-	-	10	-	-	-	-	14,165
-	11,855	11,464	-	-	-	-	189,208
<u>\$ 171,114</u>	<u>\$ 11,855</u>	<u>\$ 11,697</u>	<u>\$ 528,164</u>	<u>\$ 37,598</u>	<u>\$ 13,375</u>	<u>\$ 85,000</u>	<u>\$ 2,038,589</u>
\$ 959	\$ 3,400	\$ -	\$ 31,881	\$ -	\$ -	\$ -	\$ 120,333
-	-	-	-	37,598	-	-	41,339
-	6,735	11,474	-	-	-	-	108,490
5,000	11,855	-	-	-	13,375	-	58,361
5,959	21,990	11,474	31,881	37,598	13,375	-	328,523
165,155	(10,135)	223	496,283	-	-	85,000	1,710,066
<u>\$ 171,114</u>	<u>\$ 11,855</u>	<u>\$ 11,697</u>	<u>\$ 528,164</u>	<u>\$ 37,598</u>	<u>\$ 13,375</u>	<u>\$ 85,000</u>	<u>\$ 2,038,589</u>

City of Hazel Park, Michigan

	Special Revenue					
	Major Streets	Local Streets	Garbage and Rubbish Collection	Police Training	Community Development Block Grant	Drug Law Enforcement
Revenue						
Property taxes	\$ -	\$ -	\$ 772,755	\$ -	\$ -	\$ -
Federal grants	-	-	-	-	92,485	-
State-shared revenues and grants	727,568	329,730	-	-	-	-
Race track breakage	-	-	-	-	-	-
Charges for services	-	-	467,493	-	-	-
Forfeitures	-	-	-	-	-	63,998
Interest	-	-	43,981	351	-	16,635
Other	-	-	-	-	-	-
Total revenue	727,568	329,730	1,284,229	351	92,485	80,633
Expenditures						
Current:						
General government	2,647	1,667	-	-	-	-
Public safety	-	-	-	351	92,485	8,055
Public works	324,070	409,176	1,106,560	-	-	-
Capital outlay	-	-	134,000	-	-	12,539
Debt service	358,378	-	-	-	-	-
Total expenditures	685,095	410,843	1,240,560	351	92,485	20,594
Excess of Revenue Over (Under)						
Expenditures	42,473	(81,113)	43,669	-	-	60,039
Other Financing Sources (Uses)						
Proceeds from the issuance of debt	-	-	-	-	-	-
Transfers in	-	50,000	-	-	-	-
Transfers out	(50,000)	-	-	-	-	-
Total other financing sources (uses)	(50,000)	50,000	-	-	-	-
Net Change in Fund Balances	(7,527)	(31,113)	43,669	-	-	60,039
Fund Balances - Beginning of year	33,574	85,962	494,131	-	-	294,805
Fund Balances (Deficit) - End of year	\$ 26,047	\$ 54,849	\$ 537,800	\$ -	\$ -	\$ 354,844

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances (Deficit) - Nonmajor Governmental Funds
Year Ended June 30, 2008

Funds

Cable Public Information	Byrne Memorial Justice Grant	Auto Theft Prevention	Capital Improvement and Replacement	PA 495 Fire Insurance Fund	9-11 Police Training Fund	Sick and Vacation Payout Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 772,755
-	-	-	261,250	-	-	-	353,735
-	-	58,944	-	-	3,793	-	1,120,035
-	-	-	63,603	-	-	-	63,603
-	-	-	-	-	-	-	467,493
-	-	-	-	-	-	-	63,998
6,610	9	325	17,353	-	643	-	85,907
<u>87,686</u>	<u>24,356</u>	<u>-</u>	<u>36,473</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>148,515</u>
94,296	24,365	59,269	378,679	-	4,436	-	3,076,041
-	-	-	-	-	-	-	4,314
-	-	88,456	-	-	4,436	-	193,783
61,163	-	-	-	-	-	-	1,900,969
1,346	34,500	-	732,668	-	-	-	915,053
<u>-</u>	<u>-</u>	<u>-</u>	<u>40,375</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>398,753</u>
<u>62,509</u>	<u>34,500</u>	<u>88,456</u>	<u>773,043</u>	<u>-</u>	<u>4,436</u>	<u>-</u>	<u>3,412,872</u>
31,787	(10,135)	(29,187)	(394,364)	-	-	-	(336,831)
-	-	-	372,221	-	-	-	372,221
-	-	35,510	440,100	-	-	75,000	600,610
<u>-</u>	<u>-</u>	<u>(6,100)</u>	<u>(16,255)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(72,355)</u>
-	-	29,410	796,066	-	-	75,000	900,476
31,787	(10,135)	223	401,702	-	-	75,000	563,645
<u>133,368</u>	<u>-</u>	<u>-</u>	<u>94,581</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>1,146,421</u>
\$ 165,155	\$ (10,135)	\$ 223	\$ 496,283	\$ -	\$ -	\$ 85,000	\$ 1,710,066

City of Hazel Park, Michigan

Other Supplemental Information Combining Statement of Assets and Liabilities Agency Funds June 30, 2008

	Current Tax Collection Fund	Agency Fund	Totals
Assets - Cash	<u>\$ 56,973</u>	<u>\$ 160,755</u>	<u>\$ 217,728</u>
Liabilities			
Accrued and other liabilities	\$ -	\$ 160,755	\$ 160,755
Due to other governmental units	<u>56,973</u>	<u>-</u>	<u>56,973</u>
Total liabilities	<u>\$ 56,973</u>	<u>\$ 160,755</u>	<u>\$ 217,728</u>

**Alan C.
Young & Associates, P.C.**
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

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November 14, 2008

To the Honorable Mayor and Members
Of the City Council
City of Hazel Park, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Hazel Park, Michigan (the City) for the year ended June 30, 2008, and have issued our report thereon dated November 14, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 15, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered City of Hazel Park, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether City of Hazel Park, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on City of Hazel Park, Michigan's compliance with those requirements.

SIGNIFICANT AUDIT FINDINGS

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note I to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

New Accounting pronouncements to be implemented in future years include the following:

- GASB 45 – Accounting and Financial Reporting by Employers for Post employment Benefits Other Than Pensions – Applicable FY2008-2009

ACCOUNTING ESTIMATES

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was

- Management's estimate of the allowance for uncollectible accounts. We evaluated the key factors and assumptions used to develop the allowance for uncollectible in determining that it is reasonable in relation to the financial statements taken as a whole.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in dealing with management in performing and completing our audit.

CORRECTED AND UNCORRECTED MISSTATEMENTS

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We are pleased to report that there were no misstatements detected as a result of audit procedures.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the management representation letter dated November 14, 2008.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

OTHER AUDIT FINDINGS OR ISSUES

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

FRAUD AND ILLEGAL ACTS

In accordance with Government Auditing Standards, auditors are required to determine if audit committees are adequately informed of any fraud, abuse, or illegal acts that come to the auditor's attention, unless the matter is clearly inconsequential. While performing our audit procedures related to the year ended June 30, 2008, no matters have come to our attention that would require disclosure to you.

INDEPENDENCE

Our professional standards and other regulatory requirements specify that we communicate to you in writing, at least annually, all independence-related relationship between our firm and the city and provide confirmation that we are independent accountants with respect to the City. We are not aware of any independence related relationships between our firm and the city.

CONFIRMATION OF AUDIT INDEPENDENCE

We hereby confirm that as of November 14, 2008, we are independent accountants with respect to the City under all relevant professional and regulatory standards.

This information is intended solely for the use of management of the City of Hazel Park, Michigan.

Very truly yours,

A handwritten signature in cursive script that reads "Alan C. Young & Assoc.".

Alan C. Young & Associates, P.C.